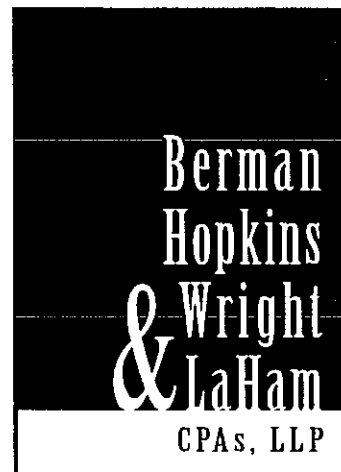


**TOWN OF
INDIAN RIVER
SHORES, FLORIDA**

**Basic
Financial Statements and
Supplemental Information**

**Year ended
September 30, 2005**



TOWN OF INDIAN RIVER SHORES, FLORIDA

Official Directory

September 30, 2005

Town Council

Thomas W. Cadden
Mayor

David J. Becker
Vice Mayor

Frances F. Atchison
Councilmember

William H. Ahrens
Councilmember

E. William Kenyon
Councilmember

Administrative

Robert J. Bradshaw
Town Manager

Judith L. Lewis, CPA
Town Treasurer

Chester E. Clem
Town Attorney

Laura Aldrich
Town Clerk

Hartman & Associates
Town Engineer

Hugh Cox
Public Safety Director

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Town Council
Town of Indian River Shores, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida, as of and for the year ended September 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Indian River Shores, Florida's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida, as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Town of Indian River Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Indian River Shores, Florida's, basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

December 9, 2005
Melbourne, Florida

Berman Hopkins
Wright & LaHam, CPAs, LLP

**TOWN OF INDIAN RIVER SHORES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

This management's discussion and analysis is designed as an objective overview and analysis of the Town's financial health and activities. Summary financial information included for the Town should be read in conjunction with the accompanying transmittal letter, financial statements and notes to the financial statements. Both current and prior year information is provided where appropriate to facilitate comparative analysis under the GASB 34 reporting model.

FINANCIAL HIGHLIGHTS

- Total net assets at September 30, 2005 were \$5,046,360. Of this amount, \$1,596,610 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- Combined ending fund balance of the governmental funds totaled \$2,800,490.
- The total revenues from all governmental funds were \$5,460,853, a 45% increase over the prior fiscal year.
- The total expenses of all Town programs were \$3,735,815, a 6% decrease from the prior fiscal year.
- During the year, the Town's total governmental fund revenues exceeded its expenditures by \$1,637,826, including other financing sources and uses.
- Total revenue in the General Fund exceeded total expenditures by \$1,580,284, including other financing sources and uses.
- General Fund resources available for appropriation were \$1,029,321 more than budgeted while general fund budgeted appropriations exceeded actual expenditures by \$299,993. Both differences were primarily driven by hurricane related revenues and reimbursements, as well as related expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Town of Indian River Shores' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to these basic financial statements.

1) Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Indian River Shores' finances in a manner similar to a private-sector business.

- The statement of net assets presents information for all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

- The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).
- Both government-wide financial statements distinguish functions of the Town that are principally supported by taxes, certain fees and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs (business-type activities, such as utilities or a golf course). All of the Town's activities are included as governmental activities. The Town has no business-type activity.

2) Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All Town funds can be divided between two categories: 1) governmental funds, and 2) fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the long-term impact of the government's near-term financing decisions is better understood. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Indian River Shores maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund and Road and Bridge fund. Each of these is considered to be a major fund. Data from the three other governmental funds, Bike Path and Pedestrian Way fund, Radon Gas fund and Planning, Zoning and Building fund are combined into a single aggregated presentation, in compliance with the GASB 34 reporting model.

The Town of Indian River Shores adopted an annual appropriated budget for the General fund and the Road and Bridge fund for the current fiscal year. A budgetary comparison statement is provided for these funds to demonstrate compliance with these budgets.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement since the resources of those funds are not available to support the Town programs.

The Town Council appoints individuals to the pension board as trustees or fiduciaries for the Town's two pension plans. The Town's Plan Administrator, the Town Manager, is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Individual fund data for each of the two fiduciary funds is combined in the accompanying fiduciary fund financial statements.

3) Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. Reference to the appropriate corresponding note is made for line items on the face of the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. At September 30, 2005, the Town's assets exceeded liabilities by \$5,046,360 with an increase in net assets for this fiscal year of \$1,187,687.

TOWN OF INDIAN RIVER SHORE'S NET ASSETS **September 30,**

	Governmental Activities	
	2005	2004 (restated)
Current and other assets	\$ 3,756,362	\$ 2,476,708
Capital assets	2,533,420	2,436,500
Total assets	6,289,782	4,913,208
Long-term liabilities outstanding	227,249	282,904
Other liabilities	1,016,173	771,631
Total liabilities	1,243,422	1,054,535
Net assets:		
Invested in capital assets, net of related debt	2,533,420	2,436,500
Restricted	916,330	405,392
Unrestricted	1,596,610	1,016,781
Total net assets	<u>\$ 5,046,360</u>	<u>\$ 3,858,673</u>

Total net assets of governmental-type activities increased by 30.8% from fiscal year 2004 to 2005. The largest single portion of the Town's net assets (50.2% in fiscal year 2005 and 63.1% in fiscal year 2004) is investment in capital assets, less any related debt used to acquire those assets (none outstanding). Capital assets are used to provide services to citizens and are not available for future spending. Although the investments in capital assets are reported net of related debt, it is noted that the resources needed to repay any related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities, should they exist.

An additional portion of the net assets (18.2% in fiscal 2005 and 10.5% in fiscal 2004) represents resources subject to external restrictions on how they may be used. These include

the net assets for Road and Bridge and net assets for the Planning, Zoning and Building special revenue funds.

The remaining balance of unrestricted net assets, \$1,596,610 (31.6% in fiscal year 2005) and \$1,016,781 (26.4% in fiscal year 2004), may be used to meet government's ongoing obligation to citizens and creditors. This net asset category increased significantly due to several factors. The emergency disaster funding line item for \$265,000 contributed to the addition. Further, the State Revenue Sharing and Half-Cent Sales Tax revenues were increased by \$54,000 over anticipated amounts, as well as higher interest earnings due to increased interest rates and cash balances. Additionally significant general and administrative cost reductions occurred when several items budgeted came in well below the amount expected or simply were not required.

ANALYSIS OF TOWN'S OPERATIONS

The following table provides a summary of the Town's operations for the year ended September 30, 2005 and 2004. Governmental activities increased the Town of Indian River Shores' net assets by \$1,187,687 in fiscal year ending 2005 and increased net assets by \$336,343 in fiscal year ending 2004.

TOWN OF INDIAN RIVER SHORE'S CHANGES IN NET ASSETS

All Governmental Activities

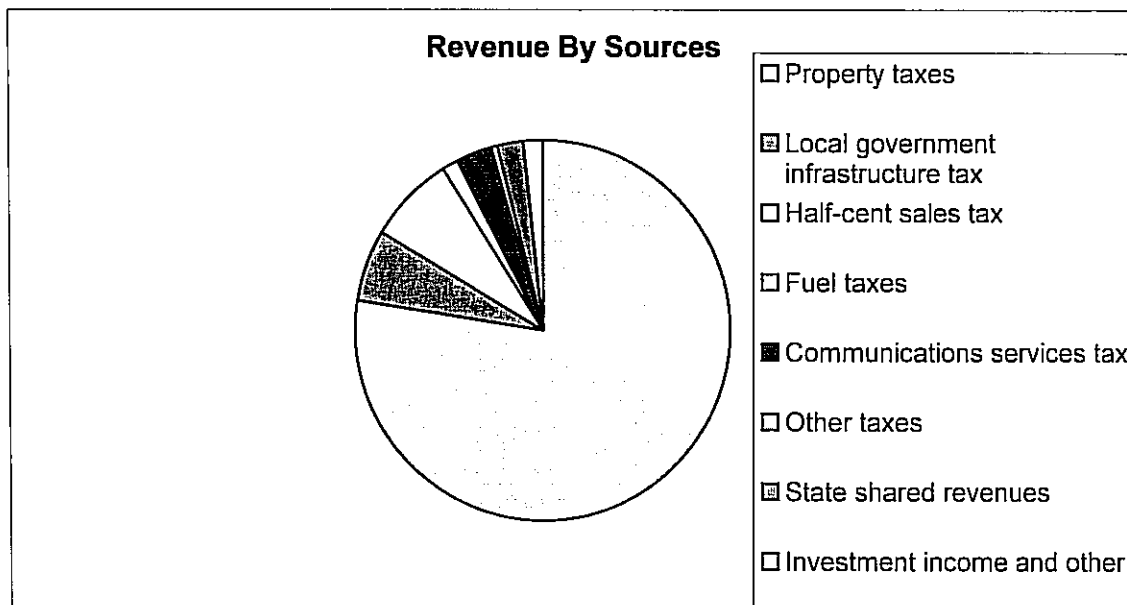
	2005	2004 (restated)
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 845,488	\$ 318,876
Operating grants and contributions	155,222	542,412
General revenues:		
Property taxes	3,037,214	2,755,336
Other taxes	736,149	571,776
State shared	80,892	59,089
Interest	59,847	26,534
Other	8,690	32,111
Total revenues	4,923,502	4,306,134
<u>Expenses:</u>		
General government	1,023,802	902,917
Public safety	2,463,859	2,489,004
Physical environment	233,488	562,545
Culture and recreation	14,666	15,325
Total expenses	3,735,815	3,969,791
Increase in net assets	1,187,687	336,343
Net assets beginning of fiscal year	3,858,673	3,522,330
Net assets end of fiscal year	\$ 5,046,360	\$ 3,858,673

The following table depicts comparative program revenues collected for the current fiscal year, compared to the related program expenses.

TOWN OF INDIAN RIVER SHORES
Expenses and Program Revenues-Governmental Activities
For the year ended September 30, 2005

	Revenues	Expenses	Net (Expense) Revenue
Post Office	\$ 29,000	\$ 54,194	\$ (25,194)
Building Department	792,493	277,078	515,415
Public Safety	65,858	2,463,859	(2,398,001)
Cemetery	1,975	7,475	(5,500)
Public Works	100,780	214,492	(113,712)
Community Center	10,604	14,666	(4,062)
	<u>\$ 1,000,710</u>	<u>\$ 3,031,764</u>	<u>\$ (2,031,054)</u>

Town revenues, other than charges for services shown above and operating grants, are generated from a number of different sources and are dependent on different financial factors. This relative mix of different revenue sources for fiscal year ended 2005 is illustrated in the following:



FINANCIAL ANALYSIS OF THE TOWN OF INDIAN RIVER SHORE'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town of Indian River Shores' governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources and is useful in assessing financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of

the fiscal year. As of September 30, 2005, the Town of Indian River Shores governmental funds reported combined fund balances of \$2,800,490.

The General Fund is the chief operating fund of the Town. At September 30, 2005, the total fund balance in the General Fund was \$2,333,273 (83.3 percent of the total \$2,800,490), of which 78.0% was unreserved, and is a measurement of the General Fund's liquidity. The General fund's revenues for the fiscal year exceeded expenditures by \$1,580,284, including other financing sources. This windfall of net revenue was due to several factors. The largest impact came from collections of insurance reimbursements and FEMA and Florida State grants related to hurricane expenditures incurred primarily in fiscal year ended September 2004. Also related to the hurricane impact is the 300% plus increase in the Building Department's permit fee revenue, as many homeowners repaired damage and used the opportunity to upgrade homes. These two factors alone account over 50% of the excess of revenues over expenses for the General Fund for the current fiscal year. These factors are not expected to be repeated in future years. The other primary factors include planned emergency fund surplus funding and a reduction of certain general and administrative expenditures.

Special revenue funds account for specific revenues and expenditures. The total fund balance of the Road and Bridge Fund at year ending September 30, 2005 is \$451,494 (16 percent of the total \$2,800,490). The remaining three special revenue funds are insignificant at the current fiscal year end, with positive fund balances of \$15,723 (less than 1% percent of the total \$2,800,490). Minimal amounts are spent from the Bike Path and Pedestrian Way Special Revenue Fund. The Radon Gas Fund is a self balancing Special Revenue Fund, used for collection of State radon surcharges, and remitting those amounts, less an administrative collection fee retained by the Town. However, though the new Planning, Zoning and Building Fund has minimal activity for the fiscal year just ended, this will not be the case in future years, as this special revenue fund will be fully implemented in the coming fiscal year.

BUDGETARY HIGHLIGHTS

Budget to actual statements are provided for the General fund and the Road and Bridge fund. A budget column for both the original and final adopted budget is presented for fiscal year ended 2005.

During the year, the General Fund budget increased by \$467,050 (an increase of 12%). The Road and Bridge fund had no amendments. The General Fund's increases are summarized as follows:

- \$235,000 in increases allocated to hurricane related expenses
- \$94,700 in increases allocated to salary adjustments and related labor accounts
- \$59,700 in increases allocated to capital asset purchases
- \$58,000 in increases allocated to the building department for storage media conversions
- \$19,650 in miscellaneous increases in general and administrative activities

The above increases in budgeted expenses were funded entirely out of revenues in excess of the original budget estimates for the current year.

CAPITAL ASSET ADMINISTRATION

The Town of Indian River Shores' investment in capital assets includes land, buildings, improvements, infrastructure, furniture, fixtures and equipment. The Town's capital assets as of September 30, 2005 reflect an investment of \$2,533,420, net of accumulated depreciation. A comparative summary of net capital assets by category follows:

Capital Assets at Year End (net of depreciation)

	2005	2004	Difference
Land	\$ 1,428,482	\$ 1,428,482	\$ -
Buildings	278,098	171,598	106,500
Improvements, other than building	126,380	105,829	20,551
Infrastructure	15,913	16,473	(560)
Furniture, fixtures and equipment	684,547	714,118	(29,571)
Total capital assets	<u>\$ 2,533,420</u>	<u>\$ 2,436,500</u>	<u>\$ 96,920</u>

Major capital asset events during the current fiscal year include the following:

- Roof replacements, net of insurance reimbursements for:
 - Public Safety Building \$36,409
 - Town Hall \$25,440
 - Community Center \$21,919
- Replaced two Public Safety Department vehicles with over 92,000 miles on each for a total cost of \$49,905
- Purchased a new truck for the Building Department for a cost of \$28,168
- Rebuilt the ocean dune crossover, damaged by the 2004 Hurricanes Frances and Jeanne at a cost of \$25,440
- Purchased a new truck for Public Works for a cost of \$14,370
- Replaced one all terrain vehicle, used for beach patrol, for \$7,176

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates and fees to be charged for the certain activities. One factor of great significance continues to be the unique coastal location of the Town. As anticipated, the two Hurricanes came ashore in late 2004, Frances and Jeanne, and had a significant impact on the Town's operations during fiscal year 2005, only some of which were expected.

While expenses to bring Town property back to proper operating condition incurred to date were significant, much of the expenditures were reimbursed by FEMA, Federal Highway funds and Florida state resources, as well as property insurance. Receipts from these sources during the fiscal year ended September 30, 2005 totaled \$759,215. These funds provided a tremendous increase in cash flow for the Town, replenishing a significant amount of the unreserved equity fund balance in the General Fund by fiscal year end.

One lingering effect of the 2004 hurricanes, on Town property, has just recently come to light, however. The Public Safety building was determined to carry high levels of mold, impacting the health status of several Public Safety officers. After careful analysis, experts determined the

complete air handling/conditioning equipment required replacing in fiscal year 2006, at a cost of \$25,795. Several officers had been out sick for extended periods of time and filed workman's compensation claims, which are still pending. All officers have now returned to work, as air quality tests demonstrate inside air quality now exceeds outside air quality. The impact of the pending workman's compensation claims on the Town is unknown at this time.

As a result of the 2004 hurricanes, another economic impact to the Town was the exponential increase in building department permit fees collected in fiscal year ended September 30, 2005. Primarily, the increase was due to the repairs and rebuilding of homes damaged during the 2004 hurricanes. However, many homeowners also took this opportunity to do major renovations to their homes as well, bringing them to a higher building standard. This pushed the dollar value of the construction for permits issued to over \$111 million for fiscal year ended September 30, 2005, compared to \$48 million for fiscal year ended September 30, 2004. Similarly, the permit fee income collection more than tripled for the same period. Fiscal year 2006 should see a decline in the permit fees compared for fiscal year 2005, but hurricane related repairs are still ongoing for many homeowners in Indian River Shores who have had difficulty locating contractors to do the work. Additionally, Hurricane Wilma impacted the Treasure Coast area in October of 2005, and is expected to have a minor impact on the Town as a whole in the fiscal year 2006.

Another reason for building permit fees rising for fiscal year ended 2005, which will continue in the future: revamping the building permit fee schedule, effective October 1, 2004. The Town of Indian River Shores had been using a permit fee schedule placed in service in 1987, setting a minimum inspection fee of \$30. Since that time, Florida Building Codes have mandated many more complex inspections than in the past. The new schedule increased the minimum fee to \$60, lowered the dollar thresholds, increased all published fees and implemented a Plan Checking Fee, equal to one-half of the building permit fee.

With the economic impact of Building Department's activities on the finances of the Town, as well as a new Indian River County Inter-local agreement requiring municipalities to collect county impact fees on its behalf beginning July 1, 2005, the Town's management created a new Special Revenue Fund during 2005 titled the Planning, Zoning and Building Fund. This fund will be fully operational for fiscal year 2006 forward and will effectively isolate and match user fees being generated by the building department with the cost of services they are designed to pay for.

Another fiscal year 2005 initiative impacting the new fiscal year's budget is the Public Safety Department's pursuit of achieving Certification as an accredited department under standards issued by the Florida Commission on Law Enforcement Accreditation. Our Public Safety Department is one of only a few departments in the entire State of Florida whose officers are triple certified, as Police, Fire and Rescue professionals. The Department has embarked upon this ambitious program to bring the department up to the highest state standards for compliance with best law enforcement practices and procedures. Included is active officer training, writing and implementing new policies and procedures, and assessors interviewing and evaluating the Public Safety Departments activities on whole. Anticipated budget needs for this program for fiscal year 2006 is approximately \$15,000.

These factors and many others were taken into account when adopting the Town's budget for the 2006 fiscal year. Amounts available for appropriation in the General Fund fiscal year 2006 budget are \$3,916,294, a decrease of 11 percent over the final fiscal year 2005 budget of \$4,343,245. The reduction was primarily achieved through the removal of the Building

Department budget from the General fund. Ad valorem tax, historically collected at approximately 96 percent of amount levied, is estimated to increase in fiscal year 2006 to \$3,219,594, a 5.95 percent increase over the budgeted amount for fiscal year 2005 though the millage rate set at 1.473 for fiscal year 2006 has remain unchanged for a third year. Most other line item expenditures for fiscal year 2006 are expected to modestly increase, though Public Safety Officers' union representatives are presently negotiating with Town officials for a new employment contract, the effects of which are unknown at this time.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Indian River Shores for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town's Finance Department at Town of Indian River Shores, 6001 North A-1-A, Indian River Shores, Florida, 32963-1014, or tirstreas@bellsouth.com.

Town of Indian River Shores, Florida

STATEMENT OF NET ASSETS

September 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Notes A-5, B)	\$ 3,612,621
Due from other governments	86,041
Due from employees	1,833
Prepaid expenses	49,167
Other current assets	6,700
Capital assets, not being depreciated (Notes A-7, C):	
Land	1,428,482
Capital assets, net of accumulated depreciation (Notes A-7, C):	
Buildings	278,098
Improvements other than buildings	126,380
Infrastructure	15,913
Furniture, fixtures and equipment	684,547
Total capital assets	<u>2,533,420</u>
Total assets	<u>6,289,782</u>
LIABILITIES	
Accounts payable	136,743
Accrued expenses	28,105
Due to other governments	27,412
Deposits	58,990
Other liabilities	3,352
Deferred revenue (Note E)	701,270
Noncurrent liabilities:	
Due within one year (Note F)	60,301
Due in more than one year (Note F)	227,249
Total liabilities	<u>1,243,422</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,533,420
Restricted for road construction and maintenance	451,494
Restricted for building department	464,836
Unrestricted	1,596,610
Total net assets	<u>\$ 5,046,360</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

STATEMENT OF ACTIVITIES

September 30, 2005

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
Town council	\$ 23,392	\$ -	\$ -	\$ -	\$ (23,392)
Town manager	140,399	-	-	-	(140,399)
Town treasurer	99,341	-	-	-	(99,341)
Town clerk	88,600	-	-	-	(88,600)
Post office	54,194	29,000	-	-	(25,194)
Building department	277,078	792,493	-	-	515,415
General administration	206,274	-	-	-	(206,274)
Town attorney	115,250	-	-	-	(115,250)
Planning board	19,274	-	-	-	(19,274)
Public safety	2,463,859	11,416	54,442	-	(2,398,001)
Engineering and planning services	11,521	-	-	-	(11,521)
Cemetery	7,475	1,975	-	-	(5,500)
Public works	214,492	-	100,780	-	(113,712)
Culture and recreation	14,666	10,604	-	-	(4,062)
Total	<u>\$ 3,735,815</u>	<u>\$ 845,488</u>	<u>\$ 155,222</u>	<u>\$ -</u>	<u>(2,735,105)</u>
General revenues:					
Taxes:					
Property taxes (Note J)					3,037,214
Local government infrastructure tax					239,667
Half-cent sales tax					294,101
Fuel taxes					56,514
Communications services tax					116,008
Other taxes					29,859
State shared revenues					80,892
Interest income					59,847
Miscellaneous revenue					3,629
Gain on sale of capital assets					5,061
Total general revenues					<u>3,922,792</u>
Change in net assets					<u>1,187,687</u>
Beginning net assets, restated					<u>3,858,673</u>
Ending net assets					<u>\$ 5,046,360</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2005

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments (Notes A-5, B)	\$ 3,509,677	\$ 102,944	\$ -	\$ 3,612,621
Due from other governments	80,891	5,150	-	86,041
Due from other funds (Note D)	-	346,300	43,135	389,435
Due from employees	1,833	-	-	1,833
Prepaid expenses	49,167	-	-	49,167
Other current assets	6,700	-	-	6,700
Total assets	<u>\$ 3,648,268</u>	<u>\$ 454,394</u>	<u>\$ 43,135</u>	<u>\$ 4,145,797</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 133,843	\$ 2,900	\$ -	\$ 136,743
Accrued expenditures	28,105	-	-	28,105
Due to other governments	-	-	27,412	27,412
Due to other funds (Note D)	389,435	-	-	389,435
Deposits	58,990	-	-	58,990
Other liabilities	3,352	-	-	3,352
Deferred revenue (Note E)	701,270	-	-	701,270
Total liabilities	<u>1,314,995</u>	<u>2,900</u>	<u>27,412</u>	<u>1,345,307</u>
Fund balances				
Reserved for road construction and maintenance	-	451,494	-	451,494
Reserved for prepaids	49,167	-	-	49,167
Reserved for building department	464,836	-	-	464,836
Unreserved:				
Designated for emergency disasters (Note G)	442,774	-	-	442,774
Designated for cemetery maintenance (Note G)	126,675	-	-	126,675
Undesignated:				
General fund	1,249,821	-	-	1,249,821
Special revenue funds	-	-	15,723	15,723
Total fund balances	<u>2,333,273</u>	<u>451,494</u>	<u>15,723</u>	<u>2,800,490</u>
Total liabilities and fund balances	<u>\$ 3,648,268</u>	<u>\$ 454,394</u>	<u>\$ 43,135</u>	<u>\$ 4,145,797</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

September 30, 2005

Fund balances - total governmental funds \$ 2,800,490

The net assets reported for governmental activities
in the statement of net assets are different because:

Capital assets used in governmental activities which are
not financial resources and therefore are not reported in
the governmental funds. Those assets consist of:

Land	\$ 1,428,482	
Buildings, net of \$801,346 accumulated depreciation	278,098	
Improvements other than buildings, net of \$62,552 accumulated depreciation	126,380	
Infrastructure, net of \$887 accumulated depreciation	15,913	
Furniture, fixtures and equipment, net of \$906,914 accumulated depreciation	<u>684,547</u>	2,533,420

Long-term liabilities are not due and payable
in the current period and therefore are not
reported in the funds. Those liabilities consist of:

Compensated absences	(287,550)
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Total net assets of governmental activities	<u>\$ 5,046,360</u>
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The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year ended September 30, 2005

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes (Note J)	\$ 3,037,214	\$ -	\$ -	\$ 3,037,214
State revenue sharing	57,410	23,482	-	80,892
Local government infrastructure tax	239,667	-	-	239,667
Other intergovernmental	992,897	56,514	860	1,050,271
Licenses and permits	792,493	-	-	792,493
Fines and forfeitures	11,416	-	-	11,416
Impact fees	-	13,038	15,659	28,697
Sale of burial rights	1,975	-	-	1,975
Franchise fees and rent	155,612	-	-	155,612
Interest income	57,058	2,789	-	59,847
Other	2,769	-	-	2,769
	<u>5,348,511</u>	<u>95,823</u>	<u>16,519</u>	<u>5,460,853</u>
EXPENDITURES				
Current				
General government	982,417	15,905	5,079	1,003,401
Public safety	2,315,171	-	-	2,315,171
Public works	204,894	21,426	-	226,320
Capital outlay (Note C)	288,160	-	-	288,160
	<u>3,790,642</u>	<u>37,331</u>	<u>5,079</u>	<u>3,833,052</u>
Excess of revenues over expenditures	1,557,869	58,492	11,440	1,627,801
Other financing sources (uses)				
Proceeds from sale of fixed assets	10,025	-	-	10,025
Transfers in	12,390	-	-	12,390
Transfers out	-	(12,390)	-	(12,390)
Total other financing sources (uses)	<u>22,415</u>	<u>(12,390)</u>	<u>-</u>	<u>10,025</u>
Excess of revenues and other financing sources (uses) over expenditures	1,580,284	46,102	11,440	1,637,826
Fund balances, beginning of year	752,989	405,392	4,283	1,162,664
Fund balances, end of year	<u>\$ 2,333,273</u>	<u>\$ 451,494</u>	<u>\$ 15,723</u>	<u>\$ 2,800,490</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended September 30, 2005

Net change in fund balances - total governmental funds	\$ 1,637,826
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The change in net assets reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Total capital outlay	\$ 288,160	
Less depreciation	<u>(186,277)</u>	101,883

In the statement of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Thus, the change in net assets differs from the change in fund balance.

(4,964)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses are:

Compensated absences	(4,646)
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Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of various types of revenue differ between the two statements. This amount represents the net change in deferred revenue.

(542,412)

Change in net assets of governmental activities	<u>\$ 1,187,687</u>
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The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2005

	<u>Pension Trust Funds</u>
ASSETS	
Cash and investments (Notes A-5, B)	<u>\$ 3,569,380</u>
Total assets	<u>3,569,380</u>
NET ASSETS	
Net assets held in trust for pension benefits	<u>3,569,380</u>
Total net assets	<u><u>\$ 3,569,380</u></u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended September 30, 2005

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 197,553
Employee	84,285
Total contributions	<u>281,838</u>
Investment earnings:	
Interest	80
Net increase in fair value of investments	<u>399,400</u>
Total investment earnings	<u>399,480</u>
Total additions	<u>681,318</u>
DEDUCTIONS	
Distributions	88,138
Administrative expenses	<u>33,447</u>
	<u>121,585</u>
Change in net assets	559,733
Plan net assets at beginning of year	<u>3,009,647</u>
Plan net assets at end of year	<u><u>\$ 3,569,380</u></u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - GENERAL FUND**

Year ended September 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 3,030,411	\$ 3,130,411	\$ 3,037,214	\$ (93,197)
State revenue sharing	30,000	43,550	57,410	13,860
Local government infrastructure tax	104,050	104,050	239,667	135,617
Other intergovernmental	255,170	490,170	992,897	502,727
Licenses and permits	226,410	344,910	792,493	447,583
Fines and forfeitures	13,900	13,900	11,416	(2,484)
Sale of burial rights	5,000	5,000	1,975	(3,025)
Franchise fees and rent	152,985	152,985	155,612	2,627
Interest income	31,500	31,500	57,058	25,558
Other	2,714	2,714	2,769	55
	<u>3,852,140</u>	<u>4,319,190</u>	<u>5,348,511</u>	<u>1,029,321</u>
EXPENDITURES				
Current				
General government	1,028,853	1,374,203	982,417	391,786
Public safety	2,296,971	2,358,971	2,315,171	43,800
Public works	185,711	185,711	204,894	(19,183)
Capital outlay	112,050	171,750	288,160	(116,410)
	<u>3,623,585</u>	<u>4,090,635</u>	<u>3,790,642</u>	<u>299,993</u>
Excess of revenues over expenditures	228,555	228,555	1,557,869	1,329,314
Other financing sources				
Proceeds from sale of capital assets	9,000	9,000	10,025	1,025
Transfers in	27,445	27,445	12,390	15,055
Total other financing sources	<u>36,445</u>	<u>36,445</u>	<u>22,415</u>	<u>16,080</u>
Excess of revenues and other financing sources over expenditures	265,000	265,000	1,580,284	1,345,394
Fund balances, beginning of year	<u>752,989</u>	<u>752,989</u>	<u>752,989</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,017,989</u>	<u>\$ 1,017,989</u>	<u>\$ 2,333,273</u>	<u>\$ 1,345,394</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - ROAD AND BRIDGE FUND**

Year ended September 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
State revenue sharing	\$ 17,000	\$ 17,000	\$ 23,482	\$ 6,482
Infrastructure tax	162,500	162,500	-	(162,500)
Other intergovernmental	53,000	53,000	56,514	3,514
Impact fees	13,000	13,000	13,038	38
Interest income	1,400	1,400	2,789	1,389
	<u>246,900</u>	<u>246,900</u>	<u>95,823</u>	<u>(151,077)</u>
EXPENDITURES				
Current				
General government	16,000	16,000	15,905	95
Public works	41,649	41,649	21,426	20,223
Capital outlay	162,500	162,500	-	162,500
	<u>220,149</u>	<u>220,149</u>	<u>37,331</u>	<u>182,818</u>
Excess of revenues over expenditures	26,751	26,751	58,492	31,741
Other financing sources (uses)				
Transfers (out)/in	(12,390)	(12,390)	(12,390)	-
Total other financing sources (uses)	<u>(12,390)</u>	<u>(12,390)</u>	<u>(12,390)</u>	<u>-</u>
Excess of revenues and other financing sources (uses) over expenditures	14,361	14,361	46,102	31,741
Fund balances, beginning of year	405,392	405,392	405,392	-
Fund balances, end of year	<u>\$ 419,753</u>	<u>\$ 419,753</u>	<u>\$ 451,494</u>	<u>\$ 31,741</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Indian River Shores, Florida (the "Town"), a political subdivision of the State of Florida located in Indian River County, was incorporated in June 1953. The Town was created and is governed by Special Act of the Legislature by Chapter 29163, Laws 1953, as amended by Ordinance Numbers 1 through 217. The Town is governed under the Town Manager-Council form of government, and by the Town Charter and state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council appointed Town Manager.

The Town engages in a comprehensive range of municipal services, including general administration, public safety, administration of the physical environment, roads and streets, postal services and cemetery services.

The financial statements of the Town have been prepared in conformity with U.S. generally accepted accounting principles as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

1. Reporting entity

The reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information on all of the nonfiduciary activities of the primary government as a whole. As part of the consolidation process, all interfund activities are eliminated from these statements.

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function or segment and its program revenues, and displays the extent to which each function or segment contributes to the change in net assets for the fiscal year.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements (continued)

Direct expenses are those that are clearly identifiable to a specific function or segment. Indirect expenses are costs the Town has allocated to functions through various allocation methods. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. The focus of governmental fund financial statements is on major funds. Therefore, major funds are reported as separate columns in the fund financial statements and non-major funds are aggregated and presented as a single column on each statement. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, fines and forfeitures and other revenues (except for investment earnings) associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Investment earnings are recorded when earned.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting and financial statement presentation (continued)

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Road and Bridge Fund - The Road and Bridge Fund accounts for receipts of impact fees collected per dwelling unit from property developers upon issuance of building permits and motor fuel tax and local option gas tax revenues remitted by the State of Florida.

Additionally, the Town reports the following fund type:

Pension Trust Funds - these funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations and other governmental units. These funds account for the assets of the Town's defined contribution and defined benefit pension plans.

The Pension Trust Funds' measurement focus is on the determination of net income and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The Pension Trust Fund operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Pension Trust Funds use the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Budgets and budgetary accounting

The following procedures are used to establish and maintain operating budgets of the Town:

Prior to August 1st of each year, the Town Manager, in consultation with the finance committee, submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Budgets and budgetary accounting (continued)

Public hearings are conducted to obtain taxpayer suggestions. If changes are suggested by the taxpayers, Town Council considers those changes, and votes to incorporate them if deemed appropriate.

Prior to October 1st, the budgets are legally enacted through passage of a resolution.

The Town Council is authorized to amend the budget to utilize excess funds, to increase appropriations, to transfer funds, or for any other purpose.

The budgets of the general fund and the road and bridge fund are adopted on a basis consistent with U.S. generally accepted accounting principles, except for certain tax revenue, which are on a cash basis and encumbrances that are considered as the equivalent of expenditures and are reserved at year-end for governmental funds. For the year ended September 30, 2005, there were no differences between budgeted amounts and actual amounts that are reported on a basis consistent with U.S. generally accepted accounting principles.

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The legal level of budgetary control is the department level. Budgetary information is integrated into the accounting system and appropriations are controlled at the object level within each department for management control purposes.

Contrary to Section 166.241(3), Florida Statutes expenditures exceeded budgeted appropriations during the year ended September 30, 2005 in its building and public works department by \$9,465 and \$87,492, respectively.

5. Investments

As of September 30, 2005, investments, other than the pension trust fund, consist of the State Board of Administration Investment pool and money-market accounts, which are stated at cost. Investments of the pension trust fund are held by insurance companies and are stated at market value. Income from investments owned by the individual funds are recorded in the respective funds as earned, and allocated to designated fund balances according to resolutions enacted by Town Council.

6. Interfund receivables and payables

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to or due from other funds.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets

Capital assets, which include land, buildings, improvements other than buildings, infrastructure, and furniture, fixtures and equipment, are reported in the government-wide financial statements. The Town defines capital assets as assets that are capital in nature, initial individual cost of more than \$500 and have a life expectancy of more than one year. The cost of improvements and replacements that extend the useful lives of assets are capitalized. Repairs and maintenance costs that do not improve or extend the useful life of the respective assets are not capitalized.

Capital assets are stated at cost or, if donated, at estimated fair value at the date of donation. Contributions of fixed assets received from local sources are recorded as contributions when received. The cost of property sold or retired, together with the related accumulated depreciation, is removed from the appropriate accounts, and any resulting gain or loss is included in net income.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

<u>Asset class</u>	<u>Estimated useful lives (years)</u>
Buildings	40
Improvements other than buildings	10 - 30
Infrastructure	30
Furniture, fixtures and equipment	5 - 43

General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements.

8. Compensated absences

All full-time employees earn sick leave at the rate of one shift day per month. The sick leave may be accumulated up to a maximum of 160 days. If an employee retires or terminates in good standing after 20 years of service, a reduced value of unused sick leave will be paid at the employee's current rate of pay.

The Town accrues vacation and sick leave based on current compensation levels in accordance with U.S. generally accepted accounting principles. The entire compensated absences liability is reported on the government-wide financial statements.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

NOTE B - CASH AND INVESTMENTS

The Town has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard establishes and modifies disclosure requirements related to deposit risks (custodial credit and foreign currency risks) and investment risks (credit, interest rate and foreign currency risks). The implementation of this standard had no effect on financial statement amounts.

Cash includes demand deposits, cash on hand, and short-term investments with a maturity date within three months of the date acquired by the Town.

The following cash and investment accounts were included in the various funds at September 30, 2005:

	<u>Interest Rate</u>	<u>Balance</u>
General fund		
Cash		\$ 139,614
Money market account	1.82%	2,648,426
Local government pooled investment account	3.79%	721,637
		<u>\$ 3,509,677</u>
Special revenue funds		
Local government pooled investment account	3.79%	<u>\$ 102,944</u>
Fiduciary fund		
Cash		<u>\$ 3,561,295</u>

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND INVESTMENTS (continued)

The Town's deposits and investments (except for fiduciary fund investments) are insured by Federal Depository Insurance Corporation or by the multiple financial institution collateral pool established by Florida Statutes. At September 30, 2005, the carrying amount of these insured cash and investments was \$3,612,621 and the bank balances totaled \$3,608,231.

The interest bearing deposits maintained by the Town earned between 1.20% - 3.79% during the year ending September 30, 2005.

Fiduciary investments are invested in pooled separate investment accounts held by an insurance company. At September 30, 2005, the entire balance was reported and classified as cash.

The local government pooled investment account is administered by the State Board of Administration and is composed of local government surplus funds deposited therein by units of local government. The investing of public funds with the State Board of Administration is governed by Section 218.407, Florida Statutes. The investments with the State Board of Administration consist largely of federal agency obligations, repurchase agreements, banker's acceptance and commercial paper. Financial institutions must meet the criteria of being a Qualified Public Depository as described in the Florida Security for Public Deposits Act, under Chapter 280, Florida Statutes, before any investments are made with those institutions.

Credit risk - The Town's adopted investment guidelines require that the investments of the Town be limited to those investments contained in Florida Statutes 218.415(17) subparagraphs (a) through (d), which allow investments in the local government pooled investment account, securities and exchange commission required money market funds with the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury. The Town's investment policy does not further limit its investment choices. As of September 30, 2005, the state investment pool was not rated by a nationally recognized rating agency.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,428,482	\$ -	\$ -	\$ 1,428,482
Capital assets, being depreciated:				
Buildings	946,749	132,695	-	1,079,444
Improvements other than buildings	163,492	25,440	-	188,932
Infrastructure	16,800	-	-	16,800
Furniture, fixtures, and equipment	1,520,225	130,025	58,789	1,591,461
Total capital assets being depreciated	<u>2,647,266</u>	<u>288,160</u>	<u>58,789</u>	<u>2,876,637</u>
Less accumulated depreciation for:				
Buildings	775,150	26,196	-	801,346
Improvements other than buildings	57,663	4,889	-	62,552
Infrastructure	327	560	-	887
Furniture, fixtures, and equipment	806,107	154,632	53,825	906,914
Total accumulated depreciation	<u>1,639,247</u>	<u>186,277</u>	<u>53,825</u>	<u>1,771,699</u>
Total capital assets, being depreciated, net	<u>1,008,019</u>	<u>101,883</u>	<u>4,964</u>	<u>1,104,938</u>
Governmental activities capital assets, net	<u>\$ 2,436,501</u>	<u>\$ 101,883</u>	<u>\$ 4,964</u>	<u>\$ 2,533,420</u>

As discussed in Note E, the one-cent local government infrastructure tax funded the acquisition of \$239,667 of the above additions.

Depreciation expense was charged to functions/programs of the Town as follows:

General government	\$ 23,082
Public safety	147,569
Public works	6,938
Culture and recreation	8,688
	<u>\$ 186,277</u>

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D - INTERFUND ACTIVITY

Due to/from other funds at September 30, 2005 is summarized as follows:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ -	\$ 389,435
Road and bridge fund	346,300	-
Non-major governmental funds:		
Bike path and pedestrian way fund	1,481	-
Radon gas fund	14,883	-
Planning, zoning & building fund	26,771	-
	<u>\$ 389,435</u>	<u>\$ 389,435</u>

Additionally, the Road and Bridge Fund transferred \$12,390 to the General Fund. Interfund transfers include transfers of unrestricted revenues collected in various funds to finance various programs accounted for in other funds, in accordance with budgetary authorizations. The due to/from balances resulted from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

NOTE E - DEFERRED REVENUE

Primarily all of deferred revenue consists of the unexpended portion of the one-cent local government infrastructure tax which was originally approved in 1989, then renewed in 2002, and may be collected for a maximum of fifteen years through 2019. The infrastructure tax can be expended only for capital assets with a life of five or more years. The deferred infrastructure tax revenue balance consists of tax collected in excess of qualifying expenditures.

Deferred revenue is detailed as follows at September 30, 2005:

Unexpended infrastructure tax balance, October 1, 2004	\$ 405,450
Add: collection of tax for 2005	<u>528,884</u>
	934,334
Less: qualifying expenditures	<u>239,667</u>
Unexpended infrastructure tax balance, September 30, 2005	694,667
Other deferred revenue	<u>6,603</u>
	<u>\$ 701,270</u>

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2005:

	Balance at October 1, 2004	Increase	Decrease	Balance at September 30, 2005	Due Within One Year
Accrued compensated absences (Note A-8)	<u>\$ 282,904</u>	<u>\$ 63,972</u>	<u>\$ 59,326</u>	<u>\$ 287,550</u>	<u>\$ 60,301</u>

Compensated absences in the governmental activities are classified as non-current liabilities and are liquidated by the general fund.

NOTE G – DESIGNATIONS OF GENERAL FUND BALANCES

The activity in the designated general fund balances during the year ended September 30, 2005 is as follows:

	Balance, October 1, 2004	Transfers - in	Transfers - out	Balance, September 30, 2005
Emergency disasters	\$ 625,632	\$ 17,142	\$ 200,000	\$ 442,774
Cemetery maintenance	127,085	-	410	126,675
	<u>\$ 752,717</u>	<u>\$ 17,142</u>	<u>\$ 200,410</u>	<u>\$ 569,449</u>

The addition of \$17,142 to the designation for emergency disasters consists of allocated interest. The reduction to the designation for emergency disasters consists of an approved transfer of \$200,000 to the undesignated general fund balance from the designation for emergency disasters by the Town Council. The deduction to the designation for cemetery maintenance totaled \$410 due to an operating deficit of \$3,892 during the year.

Total general fund balance reflects a positive balance of \$2,333,273. Designated amounts shown above represent tentative plans of the Town Council. All unreserved fund balances, both designated and undesignated, are available to finance future expenditures.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - PENSION PLANS

The Town maintains two single employer pension plans. The Town of Indian River Shores Pension Plan (a defined contribution plan) and the Town of Indian River Shores Defined Benefit Plan are outlined below. Eligible employees may elect to participate in only one of the plans for purposes of employee required and employer contributions. Voluntary contributions into the defined contribution plan may be made by employees participating in either plan.

Town of Indian River Shores Pension Plan

Plan Description:

Town of Indian River Shores Pension Plan is a single-employer defined contribution plan administered by the Town Manager. The plan covers all of the Town's regular employees that have elected to participate. Current membership in the plan consists of 12 active employees. The Town has authority to establish and amend the plan provisions and contribution requirements.

Funding Policy:

The plan is funded by an employee contribution of 5% (before taxes) and an employer contribution of 11% of the employee's compensation as defined in the plan. The Town's current year contributions to the defined contribution plan totaled \$74,229, and employee contributions totaled \$33,742. An additional voluntary contribution by the employee may be made of up to 9% (after taxes) of the employee's compensation. Participants are 100% vested immediately in their required and voluntary contributions to the plan. Participants become 20% vested in the values resulting from employer contributions after 3 years of employment service. Vesting increases by 20% for each additional year of employment with participants becoming fully vested after 7 years.

Town of Indian River Shores Defined Benefit Plan

Plan Description:

Town of Indian River Shores Defined Benefit Plan is a single-employer defined benefit pension plan administered by the Town Manager. The plan covers all of the Town's regular employees that have elected to participate. Membership in the plan consisted of 15 active employees during the year ended September 30, 2005. As of the October 1, 2004 actuarial valuation, the plan was being administered to one retiree or beneficiary and one employee was terminated but was entitled to benefits. The defined benefit plan provides retirement and death benefits to plan members and beneficiaries. The Town has authority to establish and amend the plan provided such does not diminish or adversely affect benefit provisions.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - PENSION PLANS (continued)

Town of Indian River Shores Defined Benefit Plan (continued)

Funding Policy:

Plan members are required to contribute 5% (before taxes) of their annual compensation. The Town is required to contribute at an actuarially determined rate; the current rate is 15.26% of covered payroll. Administrative costs are financed through investment earnings.

When the employer's required contribution exceeds 11% of covered payroll, the excess is to be split by the Town and the active employee participants. The excess contributions are allocated between the Town and active employees in direct proportion of the employee contributions to the employer contributions. Such was the case during the year ended September 30, 2005. The Town and the employees split the excess of 4.26%, with the Town paying 2.93% and the employees paying 1.33% resulting in Town's contribution rate to be 13.93% and the employees' rate to be 6.33% of covered payroll.

Annual Pension Cost and Net Pension Obligation:

Annual pension cost was equal to the Town's annual required contribution. As of the October 1, 2004 actuarial valuations, the Town has a net pension obligation of \$9,500. The following is a schedule of the Town's contributions to the defined benefit plan for last six years:

<u>Year ended September 30,</u>	<u>Annual required contributions</u>	<u>Percent contributed</u>
2000	\$ 67,749	100.0%
2001	74,946	100.0%
2002	91,261	100.0%
2003	90,577	116.8%
2004	101,864	94.9%
2005	107,318	109.9%

The annual required contribution for the current year was determined as part of an October 1, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return (net of expenses) and (b) projected salary increases of 6% per year. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include post retirement benefit increases.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - PENSION PLANS (continued)

Town of Indian River Shores Defined Benefit Plan (continued)

To determine the value of assets of the Plan, the actuary utilizes a method that recognizes the difference between actual and expected returns over five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2004 was 30 years.

NOTE I - DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

During the year ended September 30, 2004, the Town Council passed a resolution acknowledging the new building official as a participant in the deferred compensation plan in lieu of participation in the Town's defined contribution or defined benefit pension plans as described in Note I. The Town Manager also participates in the deferred compensation plan rather than the defined contribution or defined benefit plans per a Town Council motion in 2002. Amounts contributed by the Town on behalf of the Town Manager and building official for the year ended September 30, 2005 totaled \$21,826.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries and are 100% vested upon contribution. Therefore, assets of the plan are not reportable in the accompanying financial statements.

NOTE J - PROPERTY TAX

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessments are also designed to assure a consistent property valuation method statewide. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2005, the Town's millage rate was 1.473 mills.

The tax levy of the Town is established by the Town Council prior to October 1st of each year and the Indian River County Property Appraiser incorporates the Town millages into the total tax levy, which includes the County and the County School Board tax requirements among other overlapping governments.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE J - PROPERTY TAX (continued)

All property is reassessed according to its fair market value on January 1st of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes. The assessed value at January 1, 2004, upon which the 2004-2005 levy was based, was approximately \$2.14 billion.

All taxes are due and payable on November 1st (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. Taxes are paid in March without discount. Current tax collections, net of discounts taken, for the year ended September 30, 2005 were approximately 96% of the total tax levy.

On or prior to June 1st of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates are held by the County.

NOTE K - LITIGATION

From time to time, the Town is a defendant in various legal actions arising in the day-to-day operations of the Town. In the opinion of management, based upon information available at this time, the ultimate disposition of these matters will not have a material adverse effect on the Town's financial condition and results of operations.

NOTE L - SUBSEQUENT EVENTS

During the month of October 2005, Hurricane Wilma impacted the Town causing significant damage to the area. As of the date of the auditors report, the total damage sustained could not be determined.

REQUIRED SUPPLEMENTAL INFORMATION

Town of Indian River Shores, Florida

SCHEDULE OF FUNDING PROGRESS

Year ended September 30, 2005

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll [(b-a)/c]
October 1, 2004	\$ 1,920,017	\$ 2,715,010	\$ 794,993	70.7%	\$ 803,397	99.0%
October 1, 2003	1,776,203	2,500,699	724,496	71.0%	787,984	91.9%
October 1, 2002	1,819,204	2,201,783	382,579	82.6%	785,470	48.7%
October 1, 2001	1,768,699	1,973,749	205,050	89.6%	766,576	26.7%
October 1, 2000	1,590,772	1,716,802	126,030	92.7%	692,110	18.2%
October 1, 1999	1,362,340	1,494,249	131,909	91.2%	626,385	21.1%

SUPPLEMENTAL COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

GENERAL FUND

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Town of Indian River Shores, Florida

**GENERAL FUND
COMPARATIVE BALANCE SHEETS**

September 30,

	<u>2005</u>	<u>2004 (Restated)</u>
ASSETS		
Cash and investments	\$ 3,509,677	\$ 1,756,357
Receivables	-	31
Due from other governments	80,891	607,821
Due from employees	1,833	7,007
Prepaid expenses	49,167	80
Other current assets	<u>6,700</u>	<u>-</u>
Total assets	<u>\$ 3,648,268</u>	<u>\$ 2,371,296</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 133,843	\$ 110,908
Accrued expenditures	28,105	88,789
Due to other funds	389,435	308,328
Due to pension fund	-	59,551
Deposits	58,990	92,663
Other liabilities	3,352	2,513
Deferred revenue	<u>701,270</u>	<u>955,555</u>
Total liabilities	<u>1,314,995</u>	<u>1,618,307</u>
Fund balances		
Reserve for prepaids	49,167	-
Reserved for building department	464,836	-
Unreserved		
Designated for emergency disasters	442,774	625,632
Designated for cemetery maintenance	126,675	127,085
Undesignated	<u>1,249,821</u>	<u>272</u>
Total fund balances	<u>2,333,273</u>	<u>752,989</u>
Total liabilities and fund balances	<u>\$ 3,648,268</u>	<u>\$ 2,371,296</u>

Town of Indian River Shores, Florida

**GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

Years ended September 30,

	2005	2004 (Restated)
REVENUES		
Property taxes	\$ 3,037,214	\$ 2,755,336
State revenue sharing	57,410	38,960
Local government infrastructure tax	239,667	97,341
Other intergovernmental	992,897	257,076
Licenses and permits	792,493	255,832
Fines and forfeitures	11,416	18,724
Sale of burial rights	1,975	6,325
Franchise fees and rent	155,612	150,426
Interest income	57,058	25,203
Other	2,769	35,252
	<u>5,348,511</u>	<u>3,640,475</u>
EXPENDITURES		
Current		
General government	982,417	864,781
Public safety	2,315,171	2,335,566
Public works	204,894	542,420
Capital outlay	288,160	100,766
	<u>3,790,642</u>	<u>3,843,533</u>
Excess (deficiency) of revenues over (under) expenditures	1,557,869	(203,058)
Other financing sources		
Proceeds from sale of fixed assets	10,025	5,975
Transfers in	12,390	11,137
Total other financing sources	<u>22,415</u>	<u>17,112</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	1,580,284	(185,946)
Fund balances, beginning of year	<u>752,989</u>	<u>938,935</u>
Fund balances, end of year	<u><u>\$ 2,333,273</u></u>	<u><u>\$ 752,989</u></u>

GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL

Years ended September 30,

	2005		2004 (Restated)	
	Budget	Actual	Budget	Actual
				Variance with Final Budget
REVENUES				
Property taxes	\$ 3,130,411	\$ 3,037,214	\$ (93,197)	\$ (93,197)
State revenue sharing	43,550	57,410	13,860	8,960
Local government infrastructure tax	104,050	239,667	135,617	(6,343)
Other intergovernmental	490,170	992,897	502,727	5,976
Licenses and permits	344,910	792,493	447,583	9,652
Fines and forfeitures	13,900	11,416	(2,484)	6,324
Sale of burial rights	5,000	1,975	(3,025)	1,325
Franchise fees and rent	152,985	155,612	2,627	(5,574)
Interest income	31,500	57,058	25,558	6,203
Other	2,714	2,769	55	31,518
	<u>4,319,190</u>	<u>5,348,511</u>	<u>1,029,321</u>	<u>38,422</u>
EXPENDITURES				
Current				
General government	1,374,203	982,417	391,786	109,452
Public safety	2,358,971	2,315,171	43,800	(117,808)
Public works	185,711	204,894	(19,183)	(366,404)
Capital outlay	171,750	288,160	(116,410)	2,918
	<u>4,090,635</u>	<u>3,790,642</u>	<u>3,471,691</u>	<u>(371,842)</u>
Excess (deficiency) of revenues over (under) expenditures	228,555	1,557,869	1,329,314	(333,420)
Other financing sources				
Proceeds from sale of fixed assets	9,000	10,025	1,025	3,474
Transfers in	27,445	12,390	(15,055)	-
Total other financing sources	<u>36,445</u>	<u>22,415</u>	<u>13,638</u>	<u>3,474</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	265,000	1,580,284	1,315,284	(329,946)
Fund balances, beginning of year	752,989	752,989	-	-
Fund balances, end of year	<u>\$ 1,017,989</u>	<u>\$ 2,333,273</u>	<u>\$ 1,315,284</u>	<u>\$ (329,946)</u>

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor governmental funds, typically special revenue funds, are used to account for specific revenues that are legally restricted to expenditure for particular purposes and were not deemed a major fund by GASB 34 standards.

Bike Path and Pedestrian Way Fund - This fund accounts for the receipt of impact fees per dwelling unit upon issuance of building permits. Expenditures are for expansion and related costs.

Radon Gas Fund - This fund accounts for the receipt of impact fees per dwelling unit upon issuance of building permits. These revenues are remitted to the Florida Department of Business and Professional Regulation and the Florida Department of Community Affairs. The Town may retain up to 10% of total revenues as an administrative service fee.

Planning, Zoning and Building Fund – This fund accounts for the receipt of County impact fees. These revenues are remitted to Indian River County. The Town may retain up to 2% of total revenues as an administrative service fee.

Town of Indian River Shores, Florida

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

September 30, 2005

	Bike Path and Pedestrian Way	Radon Gas	Planning, Zoning and Building Fund	Totals
	Fund	Fund		2004 (Restated)
			2005	
ASSETS				
Due from other funds	\$ 14,883	\$ 1,481	\$ 26,771	\$ 43,135
Total assets	\$ 14,883	\$ 1,481	\$ 26,771	\$ 43,135
LIABILITIES AND FUND EQUITY				
Liabilities:				
Due to other governments	\$ -	\$ 1,481	\$ 25,931	\$ 27,412
Due to other funds	-	-	-	-
Total liabilities	-	1,481	25,931	27,412
Fund equity:				
Unreserved	14,883	-	840	15,723
Total fund equity	14,883	-	840	15,723
Total liabilities and fund equity	\$ 14,883	\$ 1,481	\$ 26,771	\$ 43,135
				\$ 5,583

Town of Indian River Shores, Florida

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year ended September 30, 2005

	Bike Path and Pedestrian Way Fund	Radon Gas Fund	Planning, Zoning and Building Fund	Totals 2004 (Restated)
REVENUES				
Other intergovernmental	\$ -	\$ -	\$ 860	\$ -
Impact fees	10,600	5,059	-	15,659
Total revenues	10,600	5,059	860	16,519
EXPENDITURES				
Current:				
General government	-	5,059	20	5,079
Total expenditures	-	5,059	20	5,079
Excess of revenues over expenditures	10,600	-	840	12,200
Fund balances, beginning of year	4,283	-	-	(7,917)
Fund balances, end of year	\$ 14,883	\$ -	\$ 840	\$ 15,723
				\$ 4,283

PENSION TRUST FUNDS

Trust funds are used to account for assets held by the City as trustee or agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, nonexpendable trust and pension trust funds. Nonexpendable trust and pension trust funds are accounted for essentially in the same manner as proprietary funds.

Pension Trust Funds - These funds are used to account for assets held in trust by the Town for others. Pension trust funds are accounted for as a fiduciary funds since proper maintenance is critical.

Town of Indian River Shores, Florida

**PENSION TRUST FUNDS
COMPARATIVE STATEMENTS OF FIDUCIARY NET ASSETS**

September 30,

	<u>2005</u>	<u>2004 (Restated)</u>
ASSETS		
Cash and investments	\$ 3,569,380	\$ 2,947,770
Due from other funds	-	59,551
Due from employees	-	2,326
Total assets	<u>\$ 3,569,380</u>	<u>\$ 3,009,647</u>
NET ASSETS		
Net assets held in trust for pension benefits	<u>3,569,380</u>	<u>3,009,647</u>
Total fund balances	<u>\$ 3,569,380</u>	<u>\$ 3,009,647</u>

Town of Indian River Shores, Florida

**PENSION TRUST FUNDS
COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**

Years ended September 30,

	<u>2005</u>	<u>2004 (Restated)</u>
ADDITIONS		
Contributions:		
Employer	\$ 197,553	\$ 209,121
Employee	84,285	76,886
Total contributions	<u>281,838</u>	<u>286,007</u>
Investment earnings:		
Interest	80	180
Net increase in fair value of investments	<u>399,400</u>	<u>307,207</u>
Total investment earnings	<u>399,480</u>	<u>307,387</u>
Total additions	<u>681,318</u>	<u>593,394</u>
DEDUCTIONS		
Distributions	88,138	165,156
Administrative expenses	<u>33,447</u>	<u>36,813</u>
	<u>121,585</u>	<u>201,969</u>
Change in net assets	559,733	391,425
Plan net assets at beginning of year	<u>3,009,647</u>	<u>2,618,222</u>
Plan net assets at end of year	<u><u>\$ 3,569,380</u></u>	<u><u>\$ 3,009,647</u></u>

SUPPLEMENTAL INFORMATION

Town of Indian River Shores, Florida

SCHEDULE OF PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate in Mills</u>	<u>Amount Levied</u>	<u>Amount Collected (*)</u>	<u>Percent Collected</u>
2005	2,143,027,490	1.4730	3,156,679	3,037,211	96%
2004	1,952,206,948	1.4730	2,884,386	2,755,336	96%
2003	1,760,124,373	1.4370	2,529,299	2,421,295	96%
2002	1,460,691,686	1.4284	2,086,452	1,995,907	96%
2001	1,187,723,680	1.4280	1,696,069	1,644,000	97%

* Includes delinquent collections

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the Town Council
Town of Indian River Shores, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida as of and for the year ended September 30, 2005, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Rules of the Auditor General of the State of Florida.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Indian River Shores, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Town of Indian River Shores, Florida in the management letter dated December 9, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Indian River Shores, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying management letter dated December 9, 2005, as items 05-2, 05-4, and 05-5.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Town of Indian River Shores, Florida in the management letter dated December 9, 2005.

This report is intended solely for the information and use of the Town of Indian River Shores, Florida's management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

December 9, 2005
Melbourne, Florida

Berman Hopkins
Wright & LaHam, CPAs, LLP

MANAGEMENT LETTER

The Honorable Members of the Town Council
Town of Indian River Shores, Florida

We have audited the financial statements of the Town of Indian River Shores, Florida as of and for the year ended September 30, 2005, and have issued our report thereon dated December 9, 2005.

We issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters dated December 9, 2005. Disclosures in that report, if any, should be considered in conjunction with this management letter.

The discussion required by the rules of the Auditor General follows:

1. There were no inaccuracies, shortages, defalcations, fraud, and violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report.
2. The attached Schedule of Management Recommendations summarizes, if any, the status of prior year recommendations.
3. The Town of Indian River Shores, Florida, complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
4. Recommendations to improve the Town of Indian River Shores, Florida's financial management, accounting procedures and internal controls, if any, are summarized on the attached Schedule of Management Recommendations.
5. There were no violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, and there were no improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements.
6. There were no deficiencies in internal control that are not reportable conditions, including, but not limited to:
 - i. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - ii. Failures to properly record financial transactions.
 - iii. Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

7. The Town of Indian River Shores, Florida has not met any of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. The financial report filed with the Florida Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial report for the current audit period.
9. The auditor applied financial condition assessment procedures pursuant to Rule 10.556(7), noting no deteriorating financial conditions.

This management letter is intended for the information of the Town of Indian River Shores, Florida's management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

December 9, 2005
Melbourne, Florida

Berman Hopkins
Wright & LaHam, CPAs, LLP

Town of Indian River Shores, Florida

SCHEDULE OF MANAGEMENT RECOMMENDATIONS

Year ended September 30, 2005

Current Year Recommendations

05-01. Approval of travel and meal reimbursements

The Town's travel and meal reimbursement policy states that reimbursements for travel and subsistence expense must be approved by the appropriate department head, and are subject to approval of the Town Manager.

During our testing, it was noted that four of the reimbursements lacked the proper approval by department heads. The total amount of these instances was not material to the financial statements.

It is our recommendation that the Town review policies with employees to ensure that travel and meal reimbursements have proper approval by an appropriate department head.

05-02. Emergency Expenses

According to the section 5-2(g) of the Town's charter, the town council may authorize the Town Manager to expend monies beyond those provided in the budget for emergency purchases to procure necessary supplies and services to handle emergency circumstances, which require immediate action for the health, safety, or welfare of the Town. The Town Manager shall exercise such authority only in the manner and within the limits established by the Town Council. The Town Manager shall then report any such expenditure at the next regular meeting of the Town Council, whether it is a regular or special meeting.

During the course of the audit, the Town Manager exercised the above option to acquire necessary expenditures in relation to hurricane repairs. However, it was noted that the Town Council was not formally informed of the expenses at the next scheduled meeting.

It is recommended that the Town Manager inform the council, at the next scheduled Town Council meeting, of all significant expenses incurred and be documented in the minutes to the meeting.

05-03. Segregate petty cash duties

Separating duties improve internal controls over cash and other assets and reduces the possibility of errors and irregularities.

The Town currently maintains two petty cash accounts, which are being disbursed and reconciled by the same employee.

We recommend that a separate employee reconcile the petty cash accounts to reduce the vulnerability of manipulation and potential fraudulent activity in this account.

Town of Indian River Shores, Florida
SCHEDULE OF MANAGEMENT RECOMMENDATIONS
Year ended September 30, 2005

Current Year Recommendations (continued)

05-04. Competitive Bidding

Section 5-7 of the Town's charter requires that the Town expenditures over \$5,000 have competitive bidding through the publication in a newspaper of general circulation.

During testing, it was noted that the Town purchased certain assets, which had already been contracted by another governmental entity and therefore did not go through the competitive bidding process, as required by the Town Charter.

Our recommendation to the Town is to amend their charter to include an exception allowing for the purchase of goods and/or services already contracted by another governmental/public entity providing the same terms and conditions and to set forth procedures to ensure that competitive bidding is obtained for the required goods and services and maintain a file documenting this or to follow the competitive bidding process outlined in the current charter.

05-05. Budget Compliance

According to Section 166.241(1), Florida Statutes, the legally adopted budget regulates expenditures of the Town, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. The Town maintains the legal level of budgetary control at the department level.

During testing, it was noted that the building and public works department expended funds in excess of budgeted appropriations by \$9,465 and \$87,492, respectively. The majority of the over expenditures was due to the misclassification of expenses related to the hurricane, which was budgeted in the general administration department.

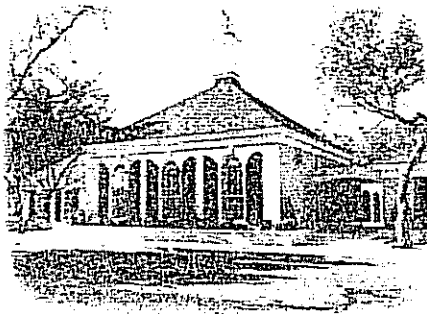
We wish to inform management that, section 166.241(3) of the Florida Statutes allows the Town Council to amend the budget at any time within a fiscal year and within up to 60 days following the end of the fiscal year. It is our recommendation that the Town monitors its expenditures at fiscal year end and amends its budget, as necessary within the allowed time frame.

MAYOR:
THOMAS W. GARDEN

VICE MAYOR:
DAVID L. BECHER

COUNCIL:
WILLIAM H. AHRENS
FRANCES F. HATCHISON
E. WILLIAM KENYON

TOWN MANAGER:
ROBERT J. BRADSHAW



TOWN OF INDIAN RIVER SHORES

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Response to Recommendations Fiscal Year Ended September 30, 2005

05-01 Approval of travel and meal reimbursements

The Town's policy for travel and subsistence expense approval was reviewed with appropriate personnel. We have immediately implemented procedures to insure proper approval by department heads or the Town Manager will be obtained in all circumstances.

05-02 Emergency expenses

The expenses examined by our auditors were approved for payment by Town Council through the consent agenda. We will be certain, however, to formally inform the council of the necessary expenses at the next council meeting following the acquisitions, as mandated, in the future.

05-03 Segregated petty cash duties

In the new fiscal year 2006, procedures have already been implemented for personnel who disburse petty cash funds, so that different personnel are preparing the petty cash reconciliations in the two departments affected.

05-04 Competitive bidding

It is the Town's intention to amend the Town Charter during the new fiscal year 2006, to allow for the "piggy-backing" on other governmental entity contracts, as is permitted by Florida statute.

05-05 Budget compliance

We note the information given, that budgets may be amended within the fiscal year and up to 60 days following the end of the fiscal year. While we were aware of and did perform amendments during the fiscal year, the ability to amend the budget after year end is new information to us. We will take appropriate action to avoid exceeding the legal level of budgetary control in the future.

Robert J. Bradshaw
Town Manager

January 20, 2006